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TAGS: ECPS ETRD FR
SUBJECT: France: Telecom and Information Technology Update

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¶1. This is another in a series of periodic updates on the French telecommunications and information technology sectors, including internet and e-commerce.

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-- France Telecom changes strategy to buy Spanish telecom operator (para 3)
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¶2. Two Members Added to ARCEP Board: With regulatory oversight of postal services added to the responsibilities of the telecom regulator, ART not only changed its name to ARCEP (see 24 June 2005 edition, Paris 4444), but also expanded its board from five to seven. The two additional board members, Joelle Toledano and Nicolas Curien, were named by the French National Assembly and by the Senate in late June. Toledano worked for the French postal services group "La Poste" from 1993 to 2005, first in the directorate for strategic affairs and later as the director for national and European regulation. Since February 2005, she has been a professor at the University of Supelec, a leading engineering school in France for energy and information services. Curien founded the International Telecommunications Society. Until his nomination to ARCEP, he was professor of economics at the National Conservatory of Arts and Trades (Conservatoire National des Arts et Metiers or CNAM) and also taught at the prestigious French engineering school Ecole Polytechnique. His research and teaching interests were in the fields of market organization and regulation in network industries, especially telecommunications. He has published several books and a number of academic papers on networks economics.

¶3. France Telecom changes strategy to buy Spanish mobile operator: France Telecom (FT) has reportedly agreed to buy 80% of Amena, the Spanish mobile phone group, for 6.4 billion euros. The French group fought off competing offers from two powerful private equity consortiums in the final stages of a four-month auction. The acquisition - set to be funded with cash and shares - comes less than three years after FT flirted with financial disaster after spending more than 100 billion euros on expansion. The group, which had nearly 50 billion of net debt in 2004, stabilized under former-CEO Thierry Breton with a strategy to reverse FT's excessive (and financially disastrous) foreign investments and focus on its core businesses in France: fixed-line (FT), mobile (Orange), internet services (Wanadoo), and corporate services (Equant). After being named French finance minister in February, Breton was succeeded as chairman and chief executive by Didier Lombard, who has wasted little time securing FT's largest takeover of a foreign operator in more than four years and one that will significantly expand the company's presence in neighboring Spain.

¶4. Spanish reaction to FT purchase: The Orange brand will replace Amena and merge with Wanadoo, FT's existing fixed-line operation in Spain. Combined, the new company will represent Spain's largest integrated telecommunications group behind Telefonica, the former state monopoly. During a recent visit to Spain, FT CEO Didier Lombard promised that the management team would remain "mainly Spanish" and that there would be no job cuts. Lombard said he spoke with Jose Montilla, the Spanish industry minister, before launching the Amena bid. He was told Madrid would not intervene in the auction, but would react favorably to a bid from a foreign industrial group. "It is very important to know there is no (Spanish) government opposition," said Lombard. His comments appeared to be an implicit criticism of the French government for launching a barrage of protectionist rhetoric (septel) in response to this month's rumors about a possible bid by PepsiCo for French food group Danone.

¶5. France Telecom outperforms market expectations: On June 28, FT announced a profitable first six months of 2005. The telecom group said its net income more than tripled from one billion to 3.4 billion euros compared to last year, thanks in large part to growth in its mobile division Orange as well as asset sales, including Mobilcom and PagesJaunes (the French "Yellow Pages" directory services). From January 1 to June 30, FT increased its mobile phone customers by 16.3% percent to 66.7 million, while broadband customers rose 80% to 6.4 million. FT is hoping to raise revenues three to five percent annually through 2008 by integrating mobile phone, internet, and fixed line services into single packages. Growth in third-generation mobile phone usage coupled with integrated services for homes and businesses should more than make up for the decline in revenues from fixed-line services. FT offers "triple play" services with TV over DSL, as well as voice telephony and internet services. Currently, only two other operators (Neuf Telecom and Free) offer TV over DSL in France via wholesale broadband deals with FT. Other operators are worried that FT will effectively stifle competition in France with bundled "triple play" offerings.

¶6. European Commission approves regulation of French broadband: France Telecom will be required to provide other market players with wholesale nationwide high-speed access to France's telecommunications network. On July 27, the European Commission authorized this regulatory measure, which had been proposed by the French national regulatory authority for electronic communications (ARCEP). The measure will apply until competing network operators have built a sufficiently wide backbone network and a large enough customer base to enable them to invest further in regional high-speed (broadband) services. FT's large market share, its capacity to supply the whole range of broadband products at both wholesale and retail level, its size and its control of the local infrastructure, led ARCEP to conclude that FT is dominant on the wholesale nation-wide broadband access market. ARCEP considered that competition in this market will be facilitated if FT is obliged to ensure internal accounting transparency between its wholesale "network" branch and its retail "ISP" entity as the recent reintegration of Wanadoo into France Telecom may have potential consequences on retail competition. The Commission asked ARCEP to review this market again within a year to review new market developments, which could enhance competition in the wholesale broadband market in France.

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